ECONOMIC PHASES OF THE GOOD NEIGHBOR POLICY

by

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PREFACE

"The Good Neighbor" is a phrase coined by President Franklin D. Roosevelt on his inaugural day, March 4, 1933, in referring to future relations with Latin America. Since that time American people have been indoctrinated with that term in periodicals and newspapers, and over the radio. Such items as the Pan American highway, Inter-American Bank, Pan American Airways and Pan American Union and various other Inter-American phrasiologies have changed from vague meanings to concrete ideas. Various organizations such as Chambers of Commerce and study clubs have prepared courses of study on Latin American culture, politics and economics. In short Latin America has changed from a vague region to one that is of definite concern to the people of the United States.

The purpose of this study is to present an account of the various economic forces which served to unite more closely the United States and Latin America, especially during the years, 1933-1941.

For background material, historical and travel books were largely used, while for the thesis the data were gathered from government reports, periodicals, newspapers and speeches.

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CONTENTS

INTRODUCTION

Collaboration with Latin America is not a twentieth century idea. As early as 1824 under the impetus of Simon Bolivar, the South American liberator, a conference was called at Panama but the flame of Pan-Americanism ignited at that meeting soon died out.

Under the pressure of commercial interests Secretary of State, James G. Blaine, called a meeting of the Latin American nations in 1882 at Washington, but after the assassination of Garfield, the Arthur administration withdrew the invitation and concentrated on individual trade treaties. A year and a half later, after several proposals, only one trade treaty had been passed by Congress.

During this decade in Congress more pressure was applied by the economic interests and in 1884 a commission was sent to Latin America to study the possibilities of bettering Latin American trade. The commission suggested that an invitation be sent to the Latin American republics for a conference to discuss trade and better relations. After four years of haggling in Congress, the proposal was accepted and a bill was passed recommending that a conference be held in Washington in October, 1889.

The next steps toward better relations were a series of Pan American conferences that have continued throughout the years.[1] Seventeen other conferences, all of a commercial nature, have been called in addition to the Pan American conferences.[2]

It would be a falsity to assume that the Latin American policy made an about face over night from "Dollar Diplomacy" to the "Good Neighbor." It is

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1 Washington, 1889; Mexico City, 1901; Rio de Janerio, 1906; Buenos Aires, 1910; Santiago, 1923; Havana, 1928; Montevedio, 1933; Lima, 1938.
2. Howard J. Trueblood, "Progress of Pan-American Cooperation," Foreign Policy Reports, No. 15,297 (February 15, 1940).

hard to select a year in which the change took place. The trend was started by President Herbert Hoover and Secretary of State Henry L. Stimson in 1928, but the real stimulus was given by President Franklin D. Roosevelt in 1933.

During this period the foreign policy in regard to Latin America underwent a concrete change. In the era before 1928, diplomatic and military pressure was used to make the economic policy of the Latin Americas beneficial to the United States. The Monroe Doctrine was interpreted and reinterpreted to benefit the interests of the United States. At some time or other the American Marines had been in almost every country in Central America. American military forces or American diplomacy had been used to protect old investments or to acquire new ones and to collect debts owed by Latin American republics to private capital in the United States.[3]

Previous to 1928 the policy of the United States toward Latin America, especially the Caribbean area, is summed up by stating that it was for the betterment of economic self interests and a determination to eliminate any threat to the security of the United States.[4]

During the period of transition from 1928-1933 the policy of the United States toward Latin America changed gradually but completely. The new economic policy was used to make the diplomatic and military contingents work successfully. It was during this period of transition that several visible acts of

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3 Platt Amendment in Cuba 1902-1934; Panama Canal 1903; Roosevelt's declaration of the United States as a policeman in 1904; Bryan-Chamarro treaty with Nicaragua, 1914; bombardment of Vera Cruz, 1915; Villa expedition, 1916; occupation of Haiti and Dominican Republic, 1915-1916; sending a battleship to Panama, 1921; 5,000 marines and sailors to Nicaragua, 1926.
4 <u>Foreign Policy Reports</u>, <u>op</u>. <u>cit</u>., February 15, 1940, 291.

friendship were concluded under Secretary of State, Henry L. Stimson.[5] It was during the administration of President Franklin D. Roosevelt that the term, "Good Neighbor" was coined. Two statements by the president in 1933 gave a hint as to future Latin American policy of the United States.

> . . .Development of the partnership as distinguished from the elder brother idea of responsibility of the United States toward the entire Western Hemisphere.[6]
>
> In the field of world policy, I would dedicate this nation to the policy of the good neighbor -- the neighbor who resolutely respects himself and, because he does so, respects his obligations and respects the sanctity of his agreement in and with a world of neighbors.[7]

The "Good Neighbor Policy" toward Latin America has embodied: 1. abandonment of intervention by the United States, including the complete withdrawal of United States forces; 2. refusal of the government to act as a debt collecting agency; 3. abrogation of the Platt Amendment in the case of Cuba, withdrawal of financial control from Haiti, and ratification of a new treaty with Panama; 4. abandonment of the policy of not recognizing revolutionary governments, including those in Central America; 5. strengthening of the Inter-American peace machinery; 6. practical economic cooperation on a mutually advantageous basis; and 7. tightening of Inter-American cultural ties.[8]

In the following thesis it is shown why it was discreet, if not necessary, to change from the "Big Stick" to the "Good Neighbor Policy." Several large programs have been carried out and a survey will be given of each one to show

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5 Refused to intervene to collect private debts even when guaranteed by treaty; withdrew marines from Nicaragua, 1933; started to withdraw troops from Haiti, 1931; allowed the League to settle Leticia dispute, 1932.
6 Louis Martin Sears, A History of American Foreign Relations, (New York, 1938), 632.
7 Franklin D. Roosevelt, Inaugural Address, March 4, 1933, (Washington, Government Printing Office, 1933).
8 Foreign Policy Reports, op. cit., February 15, 1940, 293.

how they are contributing to the new policy. A general survey of the economic snarls in Latin America will be presented as well as Reciprocal Trade, Export-Import Bank, American Trade Versus Fascist Inroads, Expropriations of American Properties by Latin American Countries, Inter-American Financial and Economic Advisory Committee with special emphasis on the Inter-American Development Commission and the Inter-American Bank.

A GENERAL ECONOMIC SURVEY OF LATIN AMERICA

Since the tendency in making surveys of the economic situation of Latin America is to divide the region into three parts, a similar division is convenient in tracing the economic development of the Latin American republics.

In the first group fall the countries in the earliest stages of industrialization, such as those depending largely on one or two exports, either agricultural or mineral. The American colonies were in this stage during the revolution. These countries import all food not readily grown and practically all finished products. In a study of Tables 1 and 2 it may be seen that Bolivia and Venezuela export over four-fifths of their minerals.

The second stage is a continuation of the first stage after the State becomes more densely populated and more industrialized. Foreign trade narrows down to the imports the nation is unable to produce or is unable to produce cheaply enough to compete with foreign products. The country is, however, industrialized enough to process raw materials into finished products for domestic consumption. Argentina, Chile, Brazil, Costa Rica and Mexico would be classified in the second category. All these countries have manufactures that supply the home needs, but even so their prosperity still depends on the export of raw materials.

> While countries of this group are still dependent on other countries for much of their finished manufactures, a considerable proportion (one-sixth to one-third) of their imports are in a semi-finished form, for final manufacture within the country.[9]

The third stage of development, most nearly exemplified in this hemisphere by the United States, occurs when a country begins exporting manufactured goods in large quantities. The difference between the second and third phase of development is the increase of manufactured exports over raw materials. In

9 Mordecai Ezekiel, "Economic Relations Between the America's", International Conciliation, No. 367, 107 (February, 1941).

Table 1. Exports of Latin America (1937)[10]

Country of origin	Exports, as a percentage of total exports, of					
	Raw materials				Manufactures	
	Minerals	Agricultural other than foodstuffs	Raw food stuffs	Processed foodstuffs	Semi-manufactures	Other manufactures
United States	5.9	16.	3.2	5.4	20.6	49.0
Argentina	.7	31.9	49.3	15.3	1.7	1.1
Bolivia	93.7	4.6	1.4	----	.3	----
Brazil	1.8	36.4	52.2	6.6	2.6	.6
Chile	80.5	8.4	7.6	2.5	.5	.5
Colombia	10.2	3.9	67.7	----	18.9	.3
Cuba	3.9	11.1	59.9	23.9	1.2	----
Ecuador	13.4	18.8	49.4	.9	11.7	5.8
Mexico	69.1	7.5	7.2	.3	15.0	.9
Paraguay	----	57.8	.3	17.7	24.2	----
Peru	28.2	30.4	.6	8.7	32.1	----
Uruguay	3.7	63.3	5.4	20.1	7.5	----
Venezuela	84.7	.9	6.1	----	8.3	----

10 Ezekiel, op. cit., 148.

Table 2. Imports of Latin America (1937)[11]

Country of origin	Imports, as a percentage of total imports, of					
	Raw materals				Manufactures	
	Minerals	Agricultural other than foodstuffs	Raw foodstuffs	Processed foodstuffs	Semi-manufactures	Other manufactures
United States	6.2	26.1	13.7	14.6	21.1	18.3
Argentina	5.1	5.0	8.6	1.1	31.5	47.8
Bolivia	8.4	14.9	7.2	11.4	16.3	41.8
Brazil	5.7	11.8	12.6	5.2	16.4	48.3
Chile	7.8	7.9	3.0	8.7	27.4	45.2
Colombia	.2	4.1	1.5	2.0	13.6	78.5
Cuba	6.5	6.8	3.5	22.3	22.4	38.5
Ecuador	.6	12.4	3.1	10.2	38.7	35.0
Mexico	3.9	5.2	----	3.2	21.1	66.6
Paraguay	----	----	5.2	19.5	16.7	58.6
Peru	2.0	3.7	9.7	7.6	20.3	56.2
Uruguay	8.1	4.9	4.7	9.5	25.3	48.5
Venezuela	----	1.3	.7	8.7	43.6	45.7

11 Ezekiel, op. cit., 149.

the United States raw material exports amount to one-fourth of the total exports while manufactured products make up the balance.[12]

Most of the first class republics will probably never reach the second or third stage, because they find it more profitable to supply raw products and as long as this situation exists there will be no change.

Latin America may be divided into four groups in making an analysis of Latin American trade with the United States; namely, the Caribbean countries, Brazil, west coast countries of South America and east coast countries of South America.[13]

Using the statistics provided by the Latin American governments for the year of [illegible], the picture of these trade regions is shown more clearly in Table 3. In [illegible], the Caribbean countries sold over 4[illegible] percent of their exports ($7[illegible]) to the United States and purchased about [illegible] percent of their imports ($[illegible]) from the United States. Since all the countries in the Caribbean group, excepting Northern Mexico are located in the tropics, their exports consisted largely of coffee, cacao, bananas, chicle, henequen and mahogany and were complementary to United States products. All of these products entered the United States free of duty.[14] There are some products exported from this region that compete with American goods, namely sugar and tobacco.

Besides most of the products being complementary to the United States goods, other factors have entered in to maintain a large volume of trade between the Caribbean area and the United States. These factors were large United States investments in Latin America, well established steamship routes between the United States and the Caribbean, proximity of Central America to the United States and

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12 *Ibid.*, 107.
13 See Table 3 for a complete grouping.
14 "The Foreign Trade of Latin America," *United States Tariff Commission*, [illegible], [illegible].

Table 3. Trade of the United States with [illegible] Latin American republics in [illegible][16]
(Value in thousands of U. S. dollars)

Country	Exports from the United States: Value	Exports from the United States: Percent of value	Imports to the United States: Value	Imports to the United States: Percent of value
Caribbean countries:				
Mexico	[illegible],207	57.7	124,[illegible]	[illegible]
Cuba	76,138	[illegible]	108,[illegible]	[illegible]
Dominican Republic	[illegible]	[illegible]	[illegible]	[illegible]
Haiti	[illegible]	[illegible]	[illegible]	[illegible]
Costa Rica	[illegible]	[illegible]	[illegible]	[illegible]
El Salvador	[illegible],275	[illegible]	[illegible]	[illegible]
Guatemala	[illegible]	[illegible]	11,[illegible]	[illegible]
Honduras	[illegible]	[illegible]	[illegible]	[illegible]
Nicaragua	[illegible]	[illegible]	[illegible]	[illegible]
Panama	10,180	[illegible]	[illegible],340	[illegible]
Colombia	[illegible]	[illegible]	[illegible]	[illegible]
Venezuela	[illegible]	[illegible]	[illegible]	[illegible]
Brazil:	71,378	[illegible]	[illegible]	[illegible]
West coast South American countries:				
Bolivia	[illegible]	[illegible]	1,[illegible]	[illegible]
Chile	[illegible]	[illegible]	[illegible]	[illegible]
Ecuador	[illegible]	[illegible]	[illegible]	[illegible]
Peru	[illegible]	[illegible]	[illegible]	[illegible]
East coast, temperate zone South American countries:				
Argentina	85,832	17.6	35,263	8.5
Paraguay	860	9.8	1,010	12.2
Uruguay	5,039	11.8	2,180	[illegible]

16 [illegible] U. S. Tariff Commission [illegible] Latin American countries, op. cit., [illegible]

a closer relationship between the currencies of the Caribbean countries and that of the United States.[16]

The United States exported mostly manufactured goods to this region. Table [illegible] shows that six of the twelve countries in that region have sent two-thirds of their exports to the United States.

In 1938 the United States trade with Brazil exceeded that of any other Latin American country and was one of the three largest in Latin America.[17] In that year over [illegible] percent ($101,000,000) of all Brazilian exports were shipped to the United States and 24 percent ($72,000,000) of Brazilian imports came from the United States.[18] Coffee was the largest item sent to the United States by Brazil with cacao, babassu nuts, brazilnuts, [illegible], hides and skins also important products.[19] In 1936 United States investments aggregated approximately $[illegible] or about seven percent of all such investments in Latin America. Exports from United States into Brazil consisted largely of canned foodstuffs, radios, electric refrigerators, automobiles, industrial and agricultural machinery and finished and semi-finished iron and steel products.[20]

The west coast South American countries in 1938 purchased [illegible] percent of all their imports ($107,000,000) from the United States and the United States bought about [illegible] percent of their total exports ($[illegible]).[21] As these countries are closer to the United States than to Europe, the United States was naturally a more logical market. In 1936 United States investments in the area were [illegible] percent ($900,000,000) of total United States investments in Latin

16 Of [illegible] million dollars invested in Latin America by United States citizens (as of 1936), 1,[illegible] million dollars or [illegible] percent, was invested in the Caribbean area. United States Tariff Commission, op. cit., [illegible].
17 Exceeded by Mexico and Cuba.
18 See Table 3.
19 Cotton, Brazil's second largest export commodity is not sent to the United States, U. S. Tariff Commission, op. cit., [illegible].
20 Ibid., [illegible].
21 Ibid., [illegible].

America. This tended to bring about dissatisfaction.[22] Exports from this area to the United States consisted chiefly of minerals and tropical products. Imports from the United States were largely textiles, cereal and prepared foodstuffs, automobiles, industrial and agricultural machinery and iron and steel products.[23]

In 1938 the east coast, temperate South American countries, exported eight percent ($[illegible]) of their total to the United States and imports to this region from the United States were 16 percent ($[illegible]) of the total.[24] This small percentage of trade was attributed to various factors: The countries are located as close to Europe as to the United States; European investments were larger than United States investments; large European populations settled in that area and the surplus products of that region were about the same as United States products.[25] In further breaking down the statistics for the area, it was found that in 1938 Argentina was the largest market for United States products in Latin America ($70,000,000), but ranked fifth ($[illegible]) as an exporter to the United States.[26] Ninety-three percent of Argentina's exports were cereals and pastoral products.[27] The United States, because of similar agricultural surpluses, confined most of her imports from Argentina to flaxseed, canned meats, wool, hides and skins and quebracho extract.

The trade problems with Latin American countries were numerous. As a general rule the United States sent manufactured and processed materials to Latin America and took foodstuffs and industrial raw materials in return. The greatest problems have arisen with countries in the temperate zone, which include

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22 Ibid., [illegible].
23 United States Tariff Commission, op. cit., 38.
24 Ibid., [illegible].
25 The United States investments are 16 percent total investments in that region, Ibid., [illegible].
26 John [illegible], "The United States Market for Argentine Exports," Commercial Pan America, IX, No. 11 and 12, 292.
27 Time, May 5, 1941.

Mexico, Argentina, Uruguay and Chile. In an effort to build up foreign exchange and to make the countries less dependent on Europe, the United States has loaned huge sums of money to industrialize these and other countries.

Other factors have entered in. There was no uniform commercial policy for all Latin America, but rather twenty individual ones. In general the customs duties were high and these revenues were a large part of the countries' incomes. Some countries, however, maintained low tariffs, while others have had high protective tariffs for the benefit of home industry. As a result of the depression, when the value of agricultural products dropped more than manufactured goods, causing a greater loss in exchange, the republics were hard pressed to meet loans. During this period several countries adopted exchange controls and other trade restrictions in an effort to protect their financial resources and to maintain the values of their currencies. In some countries the rate of foreign exchange is fixed by law; in others there are numerous rates; some vary with commodities and some with countries or with both.[29] Under this system a particular country could be highly favored. In the same way imports of specific commodities may be favored as adequate exchange is allowed for essential commodities and as some products are not imported because no exchange is allowed. This device has been a powerful weapon in protecting home industry.

Most Latin American countries, especially in South America, have entered into bilateral agreements. Quotas, customs duties and official valuations are employed as coordinated parts of their trade control systems.[30] Most Latin American countries have had a surplus problem to deal with and have resorted to export subsidies. Unlike the United States, export taxes were quite common

29 United States Tariff Commission, op. cit., [illegible].
30 Ibid., [illegible].

and were used in two ways: to provide revenue and to discourage export of raw materials that could be processed at home.[30] The United States has been trying to increase her share of the trade by helping the Latin Americans work out their problems.

30 Ibid., [illegible]

THE RECIPROCAL TRADE AGREEMENTS PROGRAM OF THE UNITED STATES

International trade declined in 19[illegible] largely because most countries, including the United States, had set up excessive trade barriers. Between 19[illegible] and 19[illegible] United States foreign trade dropped [illegible] percent, national income, [illegible] percent, and gross farm income [illegible] percent.[31] This sharp decline in income caused the people of the United States to demand a remedy for the situation of their government.

As the United States normally produced more farm and manufactured products than it was able to consume, some other outlet had to be found to dispose of the materials. Three solutions were proposed. The goods could be sold to other countries; the surplus could pile up in unmarketable carry-overs in this country; or the goods could be sold by the producers at ruinous prices.

As each country had to erect these trade barriers and no country would lower its tariff for fear of damaging home industry, some plan had to be devised for helping the export business without ruining the country with a flood of imports that would devastate already established American industry.

As a result of this economic chaos the Trade-Agreements Act was passed on June 12, 1934. The reciprocal trade agreements program was based on the Trade-Agreements Act. Although congressional approval was not required for each reciprocal trade agreement, Congress extended the Trade-Agreements Act on two occasions for additional three year periods, from June 12, 1937, and from June 12, 1940. When the bill was up for renewal, Secretary of State Hull when asked if he believed congressional approval for each reciprocal trade agreement would hurt the treaty replied, "I think the first time that such an

31 The Reciprocal Trade-Agreements Program of the United States, Department of State, Publication 1470, Commercial Policy Series [illegible], p. [illegible].

agreement came up for approval, there would remain, when the Senate got through, neither the shadow or the substance."

The fundamental purpose of this act was to increase the foreign trade of the United States. By reciprocal agreement excessively high tariff barriers were overcome and new foreign markets were opened to American exporters. This act empowered the president, in order to obtain concession from other countries on American products, to modify excessive United States tariff rates on foreign products; to bind existing tariff rates against increase; or to guarantee continued entry free of duty of products on the free list.[32] This act did not empower the president to modify rates except under a trade agreement nor did it empower him to reduce the duty on any foreign product under trade agreement by more than 50 percent or to transfer any item from the dutiable list to the free list. It did require the president to seek the advice of the Secretaries of Agriculture, State and Commerce and the Tariff Commission, and to give any other interested person a chance to present his views before concluding an agreement. All government agencies concerned with foreign commerce must study the facts before the agreement is concluded. Various interdepartmental committees work separately on the agreement, but the Department of State is the coordinator.

Foreign trade, to be successful, must flow to and from a country. Hence as the Government asks for concessions from another State, it must also grant concessions to that State. The United States, in negotiating a trade agreement, usually asked for a lower rate on certain commodities, a liberalization of quotas or liberalization of restrictions on American products. Since the trade agreements have been put into effect, almost one-third of all American exports fall under the Trade-Agreements Act.[33]

32 *Ibid.*, 3.
33 *Ibid.*, 3.

In return the United States made concessions to the other country, such as certain tariff reductions, the binding of existing tariffs or free entry if it is desired by the United States importers. Concessions are made only after serious study has proved they will not harm American manufacturers. Some concessions are made to countries by allowing them to export products at lower rates during the season when the United States is unable to produce a certain commodity in quantities large enough to supply the demand.

This trade policy was not meant to discriminate between foreign nations, but to extend equality of tariff treatment to all who do not discriminate against the United States trade. Under the Trade-Agreements Act any third nation may have the same concession providing that nation does not discriminate against the United States. This is commonly known as the "Most-Favored-Nation" clause. This Trade Act has not only paid dollars and cents to American interests, but it has also helped avoid international ill feeling and has thus promoted better commercial relations.

Foreign trade is a necessity to any prosperous country. By directly benefitting American producers whose goods are exported, it improves domestic markets by creating a demand in foreign markets; it increases the supplies available to American producers at reasonable prices by sending in goods that are better or sending in goods produced in too small a quantity to care for the demands of the United States.

The Trade-Agreements Act was for the benefit of all countries, but it appeared to focus on the Latin American nations as 12 of the 22 pacts have been signed with the American countries. Of the four pending agreements, three are with the Latin countries, which when completed would make a total of 15 republics in Latin America, out of a possible 20, involved in trade agreements with the United States.

Table 4. Trade agreements signed[54]

Country	Signed	Effective
Cuba	August 24, 1934	September 3, 1934
Brazil	February 2, 1935	January 1, 1936
Belgium and Luxemburg	February 27, 1935	May 1, 1935
Haiti	March 28, 1935	June 3, 1935
Sweden	May 25, 1935	August 5, 1935
Colombia	September 13, 1935	May 20, 1936
Canada (superseded by newer agreement)	November 15, 1935	January 1, 1936
Honduras	December 18, 1935	March 2, 1936
Netherlands (including Netherland Indies, Surinam, Curacao)	December 20, 1935	February 1, 1936
Switzerland	January 9, 1936	February 15, 1936
Nicaragua[55]	March 11, 1936	October 1, 1936
Guatemala	April 24, 1936	June 15, 1936
France (all colonies and protectorates, except Morocco)	May 6, 1936	June 15, 1936
Finland	May 18, 1936	November 2, 1936
Costa Rica	November 28, 1936	August 2, 1937
El Salvador	February 19, 1937	May 31, 1937
Czechoslovakia[56]	March 7, 1938	April 16, 1938
Ecuador	August 6, 1938	October 23, 1938
United Kingdom, Newfoundland, the British non-self governing colonies and certain protectorates and protected states and mandated territories	November 17, 1938	January 1, 1939
Canada (second agreement)	November 17, 1938	January 1, 1939
Turkey	April 1, 1939	May 5, 1939
Venezuela	November 6, 1939	December 16, 1939
Canada (supplementary fox fur agreement)[57]	December 13, 1940	December 20, 1940
Argentina	October 14, 1941	January 5, 1942

54 Mimeographed sheet, Department of State, January 7, 1942.
55 The duty concessions and certain other provisions of this agreement ceased to be in force as of March 10, 1938.
56 The operation of this agreement was suspended as of April 22, 1939.
57 This replaced a previous supplementary agreement relating to fox furs signed on December 30, 1939.

Table 5. Trade agreements in process of negotiation[39]

Country	Date of issuance of public notice	Latest date for submitting written statements	Opening date of public hearing
Chile	October 2, 1939	November 11, 1939	November 27, 1939
Uruguay	May 16, 1941	June 12, 1941	June 23, 1941
Iceland	November 17, 1941	December 6, 1941	December 15, 1941
Peru	December 29, 1941	January 24, 1942	February 9, 1942

The Latin American republics have been interested in the Trade-Agreements Act, because it offered a medium for safe-guarding and improving trade relations with the United States and it fitted in well with the world economic system in contrast to the barter system. It is a weapon that has helped combat this system of bi-lateral trade, which is in direct opposition to international trade.

In considering the broader aspects of the trade agreements program, it was necessary to keep three things in mind: the world was economically interdependent, the prosperity of the United States depended on the prosperity of the rest of the world, and a type of policy set by the United States was likely to be a pattern at a later date for the rest of the world.

Not all interests in the United States have agreed whole heartedly with this act. When the act came up for a three year extension in 1940 congressional opposition was formed. Several lines of attack were started. It was stated that the trade agreements had not reopened foreign markets. The backers of the bill pointed out that 8,000 concessions had been obtained to date and surely they had done some concrete good. Opponents of the bill maintained various home industries had been damaged, but the opposition was unable to

39 Mimeographed Sheet, Department of State, January 7, 1942.

produce many witnesses to substantiate the claims made and most of the witnesses talked of what might happen rather than what had happened. Some minor damage was proved, but the act must be considered as a whole, rather than criticising one isolated incident.

Opponents declared agriculture had been injured by the agreement, but Secretary Wallace said actually business had been helped.[39] Secretary Hull pointed out that the farm income had risen from [illegible] billion dollars in 1932 to [illegible] billions, excluding benefit payments, in 1939, an increase of 40 percent. Likewise testimony in favor of the agreement was given by such organizations as Department of Commerce, National Foreign Trade Council, Brotherhood of Railroad Trainmen, Brotherhood of Railway Clerks, International Ladies Garment Workers and Womens Trade Union League.[40] In other words labor had abolished the idea that its welfare depended on higher and higher tariffs. The opponents of the act also raised the question of constitutionality, because the act takes the ratification of any trade agreement out of the hands of the Senate.

One of the latest agreements signed was with Argentina. As Argentina has been one of the countries in direct competition with the United States, a survey of the agreement might give an inside light on how the agreements work.

In a time of international stress, this agreement has held a deeper meaning than just a commercial arrangement. Political and economic relationships between nations could no longer be disassociated, and this drawing together of the commercial and industrial interests of the United States and Argentina surely implied a rapprochement between the peoples of the two republics in more basic things -- in their conception of democracy, in their definition of freedom, and in their understanding of freedom among nations.[41]

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39 Department of State, op. cit., No. [illegible], [illegible].
40 Ibid., [illegible].
41 [illegible], "The Trade Agreement with Argentina," Foreign Commerce Weekly, (October, 1941).

Secretary Hull in his statement on the occasion of signing the Argentine agreement said in part;

> Close cooperation between Argentina and the United States is especially important at a time when the very existence of the nations in this hemisphere may depend on presenting a united front to the forces of aggression.[42]

This agreement was not an isolated item in the "Good Neighbor" relations of the two countries, but only a part of a plan. The agreement was preceded by hemispheric exchanges of teachers, students, journalists, military missions, and loans for the construction of some Argentine plants under United States leadership.

The pact was signed after no little trouble. However, both governments refused to become disheartened by numerous setbacks in trying to come to an agreement over this pact. They would always start over where the previous conference had ended and ultimately overcame many economic difficulties, such as [illegible] in commodity surplus problems and the dislocation of international exchange procedure. The agreement was formally signed on October 14, 1941, by Ambassador Norman Armour for the United States and Minister of Foreign Affairs, Dr. Don Enrique Ruiz Guiñazú, for Argentina.[43]

Article XIII of the General Provisions of the agreement in its second paragraph provides:

> The Governments of the two countries agree to consult together to the fullest possible extent in regard to all matters affecting the operation of the present agreement. In order to facilitate such consultation, a commission consisting of representatives of each Government shall be established to study the operation of the agreement, to make recommendations regarding the fulfillment of the provisions of the agreement, and to consider such other matters as may be submitted to it by the two governments.[44]

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42 *Ibid.*
43 History of the Pact was taken from the article written by Macgowan, *op. cit.*, 9.
44 *Ibid.*, 8.

Unquestionably this agreement has been a definite contribution to American foreign policy. Critics of the past should not be too critical, because the past, while not pleasing everyone, was a sincere effort by both countries to improve their economic relations. In this regard Vice-President Castillo of Argentine made the statement:

> Not all of our problems and needs have been resolved, but the interest and good will which has prevailed on both sides during the negotiations and the solid base which certainly is represented in the agreement that has been reached permit us to view with increasing interest and justified optimism the possibilities of a market potentially capable of solving all the problems of our production . . .[45]

In 1940 the total flow of commodities between Argentina and the United States was $190,000,000. Imports to the United States were $83,000,000 and exports were $107,000,000.[46] The export total represented an increase of 50 percent over the 1939 movement and a record for the decade. The import total was 30 percent higher which was a record for the decade except for 1937 when the United States, because of the drought, was forced to import large quantities of grains. Of course this marked increase was largely attributed to the war in Europe, which had shut off markets. In the first seven months of 1941, the exports to Argentina were running behind 1940, but the import total reached $80,000,000, which was more than during the entire previous year.[47]

In 1940 Argentina was the United States' sixth best customer. It was outranked only by Brazil in South America. Argentina ranked eleventh as a supplier of goods to the United States, but if the import total holds up for Argentina at the rate in early 1941, her rank as a supplier to the United States should rise to sixth position. In 1938 the United States supplied 17 percent of Argentina's total imports, while in 1940 the total jumped to 29 percent. For the first seven months in 1941 this figure jumped to 30 percent. The

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45 *Ibid.*, 3.
46 Macgowan, *op. cit.*, 6.
47 *Ibid.*, 9.

United States purchased 12 percent of the Argentine total exports in 1939 and in 1940 about 17½ percent. In the first seven months of 1941 the figure was 27 percent.[48]

The Argentine agreement although different from other agreements in some respects, contained the same three fundamental parts; concessions to Argentina; concessions to the United States and general provisions. The pact was for three years, although it might continue indefinitely.

The war brought about certain provisions in this pact that were not considered at the earlier meetings. It provided for consultation regarding all matters affecting the operation of the agreement through the medium of a mixed commission consisting of representatives of each government. There was also a separate schedule of concessions granted to Argentina by the United States on a list of commodities such as wines and liqueurs, Italian cheeses, macaroni, sunflower oil, and other supplies curtailed by the war. These provisions are written to end six months after hostilities cease between the United Kingdom and Germany if United States desires.

The Argentine concessions were interesting. The products listed under schedule one were subject to special provision. A certain proportion of these articles were not subject to reduction until the Argentine import total reached [illegible] paper pesos each calendar year. This was the average yearly import value of the last decade. The tariff advantages found in schedule one benefit [illegible] Argentine tariff items. In the case of [illegible] articles, duties were reduced and a guarantee was given on the other [illegible] articles that the duties would not be raised for the duration of the agreement. In addition the maintenance of several classifications and valuation provisions was assured. Exports to

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48 Ibid., [illegible].
49 [illegible], op. cit., [illegible].

Argentina in [illegible] of products subject to concessions were valued at $[illegible],000,000, or 47 percent of the total shipment. The coverage on the basis of the 1940 trade was $[illegible],000,000, or just over [illegible] percent. Of the 1940 total, duty reductions accounted for $[illegible],000,000 or 27 percent of total exports to Argentina, and binding against duty increase, $[illegible],000,000, or [illegible] percent. The 1939 figure included reductions representing $[illegible],000,000 or [illegible] percent of the trade, and tariff binding totalling $15,000,000 or 13 percent.[49] The greater coverage in 1940 was explained by the fact that the United States shipped a lot of goods into Argentina which ordinarily came from Europe.

The duty reductions were of three types: Those that became entirely effective on the effective date of the agreement, those that became effective partly at the effective date of the agreement and partly at a later date, and those which did not become effective until the second date. In the latter case the tariff rates are bound at the date the agreement was signed and not at the later date.

Stage one concessions became effective when the agreement became effective and stage two concessions became effective promptly after Argentina has imported more than 270,000,000 pesos worth of goods.

The following United States exports benefitted from the agreement with duties reduced: apples, pears, grapes, prunes, raisins, canned sardines, salmon, and mackerel, passenger automobiles, trucks, busses and parts, brake lining, radio sets, tubes, refrigerator parts, portable electrical tools, battery containers, fluorescent bulbs, Douglas fir, oak and Southern pine lumber, wallboard, liner board, sanitary paper, turpentine, rosin, motion picture negatives,

49 Macgowan, op. cit., 40.

raw films, white cement, rubber hose, vulcanized fiber and certain small machines.

Imports on which assurances against duty increases were obtained were: certain other passenger cars and certain other parts, dried fruit, tobacco, cigarettes, certain other radio sets and tubes, radio parts, refrigerator mechanisms, small electrical motors, [illegible], [illegible], certain small machines, oil burners, typewriters, calculating machines, cash registers, white pine lumber, [illegible], [illegible], blotting paper, varnishes, [illegible], sulphur, boiler compounds, motion picture positives, fountain pens, chewing gum, razor blades, refractory bricks, [illegible], roofing felt, [illegible], photographic film, windmills, [illegible], plows, and several types of agricultural machinery.[59]

There were various other general provisions. In fact the heart of the agreement was the fact that the most favored nation clause was to be kept with very few conditions. One was that during the war the United States would not invoke the most favored nation clause of the agreement in respect to Argentine exchange or quota agreement of imports from sterling areas if the Argentine exports to the United Kingdom were partly blocked.

Also if Argentina made an arrangement with another country to lower duties, the United States would not necessarily be included unless the Argentine government granted the same concession to still another country, but this arrangement would have to conform with the formula recommended by the Inter-American Financial and Economic Advisory Committee. The United States also made reservations over trade preferences granted to Cuba.

The exchange question was greatly simplified by an agreement signed on July 1, 1941, that helped overcome the former discrimination of United States trade. There were indications that this would be simplified even more. Also a committee has been established to remedy obstructions set in the agreement.

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59) [illegible], op. cit., 43.

The United States in return has granted 84 concessions on tariff items to Argentina. Commodities affected by this agreement accounted for 93 percent of the imports in 1939 and 94 percent in 1940. About 75 percent of these 84 were reduced and the other 25 percent were guaranteed against a rise in duties. United States imports totalled $61,000,000 in 1939 and $82,000,000 in 1940. About 90 percent of this total was covered by schedule two and the rest in schedule three can be terminated after the Second World War. This last 10 percent included products that the United States normally bought from other countries.

The concessions were made to balance the concessions given by Argentina, but they are expected to have a far reaching effect by giving the Argentines more purchasing power and dollar exchange. The United States consumer was benefitted as lower duties usually mean lower prices.

The principal commodities lowered in schedule two were flaxseed, canned corned beef, casein, cattle hides, coarse wools and quebracho extract. Also duties were lowered on preserved meats, neats-foot oil and stock, [illegible], osier or willow for basket makers use, tallow, oleo oil and stearin, meat extracts, quince jams and jellies, canary seed, corned beef hash, broomcorn, dog food, alpargatas, and reptile leather. Seasonal reductions were made on asparagus, plums, prunes, and prunelles to be effective when the domestic market was light.

The schedule three has been mentioned earlier as articles that were to be terminated after the war.

Existing duties bound by schedule two were placed on glycerine, [illegible], mica valued at less than 15 cents per pound, fresh pears and alfalfa. Commodities entering on the free list were carpet wool, crude [illegible], dried blood, crude bones, animal carbon suitable for fertilizer, undressed furs of various types,

tankage for fertilizer, horse and cattle hair, hoofs and horns, sausage casings, [illegible], ass and mule skins, sheep skins, goat skins, and also various types of liqueurs.

Various factors have entered into international commerce since the Trade Act has been put into effect, but the trade increase has been noticeable since the Act was put into operation. About 60 percent of all foreign trade with the United States in 193[illegible] was carried on under the trade agreements. But wars, and rumors of wars, agricultural fluctuations, changes in both industrial activities at home and abroad have made it difficult to show accurately the accomplishments of the agreement since 1934.

In a comparison of the agreement and non-agreement countries, Table 5 shows how they compared. In 1937-38 the countries with trade agreements increased their export trade by 61.2 percent over 1934-35, while the non-agreement countries increased their export trade by 37.9 percent. The imports of the trade agreement countries in 1937-38 over 1934-35 were increased 38.2 percent, while the non agreeing countries showed a gain of 37.9 percent.

The conclusion reached from a study of the table was that the United States benefitted more from the agreement than did the other countries. This was further substantiated in Table 6, showing how two of the earliest agreements signed with Brazil and Colombia were functioning.

The Brazilian imports showed a sharp rise during the first year of the agreement and then a leveling off until 1939. The rise in 1939 was doubtless attributed to the war. On the other hand the exports of United States to Brazil had almost doubled in the first three years of the agreement.

In conclusion it would be unjust to judge the merits of any such far

Table 6. Trade of the United States.[51]
(millions of dollars)

	1934 and 1935 average value	1937 and 1938 average value	Increase Value	Increase Percent
Exports (including re-exports):				
Trade agreement countries	765.3	1,2[illegible]	4[illegible]	[illegible]
Non-agreement countries	1,4[illegible]	1,[illegible]	[illegible]	[illegible]
Total	2,[illegible]	[illegible]	1,313.[illegible]	[illegible]
General imports:				
Trade agreement countries	795.0	1,070.3	[illegible].7	[illegible]
Non-agreement countries	1,067.4	1,449.5	[illegible].1	[illegible]
Total	1,[illegible]	[illegible].1	[illegible]	[illegible]

Table 7. In transit and transshipment trade of the United States.[52]
(Value in thousands of dollars)

	Brazil[53]		Colombia[54]	
Year	Received from	Shipped to	Received from	Shipped to
1932	550	1,052	1,544	1,819
1933	611	1,022	1,544	2,572
1934	541	2,019	1,448	2,548
1935	712	2,503	1,412	3,271
1936	809	2,585	1,375	3,690
1937	1,046	4,768	1,322	6,051
1938	1,045	3,617	1,061	4,193
1939	1,499	5,345	1,107	8,874

reaching [illegible] by the first three years of its effectiveness. As mentioned before various factors have entered in. The program was a step in the direction of free trade in the Americas and the results can best be ascertained after a period of international peace.

51 David [illegible], "More Trade Agreements?" The New Republic, CII, [illegible] (February, 1940).
52 Kathleen [illegible], ed., "Statistical Abstract of the United States 1940," No. [illegible], [illegible] Yearbook LXII, (1941).
53 Brazil Trade Agreement effective January 1, 1936.
54 Colombia Trade Agreement effective May 20, 1936.

EXPORT-IMPORT BANK

The Export-Import Bank of Washington was established as an agency of the United States in order to assist in financing foreign trade. In 1933 the Congress, in an effort to promote the rehabilitation of agriculture and industry, enacted the Agricultural Adjustment Act and the National Industrial Recovery Act. Also the powers of the Reconstruction Finance Corporation were extended to facilitate the operations of various types of financial institutions. These powers included the authority to finance the sale of surplus agricultural commodities in foreign markets, but no agency of the government had power to make foreign loans on the security of foreign collateral.

The Export-Import Bank of Washington was authorized by Executive Order No. 6581, issued on February 2, 1934, under the laws of the District of Columbia. The bank was organized on February 12, 1934, with an authorized capital stock of $11,000,000. The common stock amounting to $1,000,000 was subscribed to by the Secretary of State and the Secretary of Commerce from appropriations made by the Fourth Deficiency Act. The preferred stock, $10,000,000, was purchased by the Reconstruction Finance Corporation. The bank was organized primarily to increase the trade of Russia and the United States. A second Export-Import Bank was organized by the same method on March 9, 1934, to permit an extension of credits to the Republic of Cuba, and to serve all countries except Russia. Congress took formal cognizance of the banks on January 31, 1935, and authorized their continuance as governmental agencies until June 16, 1937, or such earlier date as might be fixed by the president by Executive Order. As the trade with Russia broke down, the second bank was liquidated and went out of existence on June 30, 1936.

The board of trustees was composed of Jesse Jones, Administrator, Federal Loan Agency; R. Walton Moore, Counselor, Department of State; Edward J. Noble, Under Secretary of [illegible]; Emil Schram, Chairman, Reconstruction Finance Corporation; Warren Lee Pierson, President, Export-Import Bank; Harry D. White, Director, Monetary Research, Treasury Department; [illegible] B. Merriam, Director, Reconstruction Finance Corporation; [illegible] Snodgrass, Assistant General Counsel, Reconstruction Finance Corporation; H. A. Mulligan, Treasurer, Reconstruction Finance Corporation; Leslie A. Wheeler, Director, Foreign Agricultural Relations, Department of Agriculture. The first six members of the board act as an executive committee and handle many of the bank's activities. By reason of reorganization plan No. 1, issued on April 25, 1939, the bank is a part of the Federal Loan Agency.

Before the establishment of the bank the majority of loans made to Latin America had been arranged by private capital at a high rate of interest and on short terms. These harsh loans have done more to give the United States the name of "Uncle Shylock" and to breed distrust among the Latin Americans than any other one thing. On December 31, 1939, $1,[illegible],000 of dollar bond issues guaranteed by Latin American governments, or their political subdivisions, were outstanding of which $1,1[illegible]1,7[illegible]1,000 was in default as to principal and interest.[58]

At one time it was the policy of the United States government to collect private debts for its citizens in Latin America, but soon after the beginning of the Franklin D. Roosevelt administration, the government served notice that it would not collect private debts or intervene to force a settlement. The administration did help form the Foreign Bondholders Protective Council in

58 Foreign Bondholders Protective Council, Inc., Annual Report for 1939, 55.

1933, and hinted that the foreign dollar bonds were of concern to the American people. At this early date, however, when the "Good Neighbor" policy was just being formed, the government policy toward Latin America was primarily interested in reinterpreting the Monroe Doctrine as a cornerstone for a "Good Neighbor" policy rather than in making loans.

With the exception of the Cuban coffee loan and the Brazilian exchange unblocking loan, the loans of the Export-Import Bank were made to encourage the export of heavy goods to the southern republics. The two factors behind these loans were to relieve unemployment in the heavy industries in the United States and to enable the exporters of these products to meet foreign competition, especially German.

A variation from this pattern was started in the summer of 1938 when $5,000,000 was loaned to Haiti for a public works program. In 1939 and 1940 other commitments were made which broadened the bank's scope. In September, 1940, by act of Congress, the bank's lending power was increased from $200,000,000 to $700,000,000 of which $500,000,000 was designated for use in Latin America. Some provisions of the earlier bill were removed, which had failed to work out due to war conditions.

The new financial policy of the Export-Import Bank was set forth by Jesse Jones, Federal Loan Administrator in a letter of August 30, 1940, to the House Banking and Currency Committee concerning an increase in the bank's lending powers:

> 1. To put the bank in a position to continue to finance exports from this country, principally to Latin American countries,
>
> 2. To assist some of these countries in their economic problems, which have been made acute by the European war, cutting off or greatly reducing their exports.
>
> 3. That the bank may, through select loans carefully made, assist some of the countries in increasing the production of things we must

import. While it is not contemplated that loans would be made on surplus agricultural commodities, appropriate consideration would be given to applications from some of the governments or its banks to assist their nationals in the carrying and orderly marketing of some of their agricultural surpluses, with a view to avoid demoralizing prices that would affect our own [illegible]. No such loan would be considered that appeared to be inimical to our own agricultural interests.

4. That we may be of some assistance in helping to improve their industrial situations, making them less dependent upon other countries.[56]

As the bank had only operated a short time under the new policy, a concise picture of the loans that have been made is more readily shown by Table 7. The work of the bank was broken into seven different categories as follows:[57]

1. Loans to meet emergency and seasonal shortages of dollar exchange. By far the largest amount of the bank's loans have been used to maintain the values of Latin American currencies. Although these credits were reported by the bank to be for the purchase of United States industrial and agricultural goods, they were actually designed to assist in refinancing the balance of the borrowing countries' payments to the United States, whether the disequilibrium is due to the seasonal character of exports or to disruption of trade with Europe.[58]

Nine of the Latin American countries have borrowed money for that purpose. Interest on this type of loan was not always made public, but the Argentine loan was 3.6 percent. Maturities on this type of loan vary, but the longest was eight and one half years on a loan to Argentina. The goods imported were not vastly different from those imported before the new aid was gained.[59]

56 New York Times, August 11, 1940.
57 "Export-Import Bank Loans to Latin America," Foreign Policy Reports, No. 17, 94 (June 15, 1941).
58 Warren Lee Pierson, "Export-Import Bank Operations," Annals of the American Academy of Political and Social Science, September, 1940, 16.
59 Foreign Policy Reports, op. cit., (June 15, 1941).

Table 8. Export-Import loans relating to Latin America,[80]
December 31, 1935--March 31, 1941.
(in thousands of dollars)

Country of borrower	March 31, 1941: Commitments to make additional loans	March 31, 1941: Loans outstanding	Loans outstanding at the end of: 1940	1939	1938	1937	1936	1935
Argentina	20,400	100	100					
Brazil	51,[illegible]	18,[illegible]	16,[illegible]	1[illegible],[illegible]	[illegible]25	1,[illegible]60	300	
Chile	14,[illegible]7	5,[illegible]	2,[illegible]	[illegible]	[illegible]50			
Colombia	6,105	7,870	6,[illegible]	50				
Cuba	11,000				1,425		1,961	1,000
Costa Rica	5,[illegible]	31	4				28	
Dominican Republic	3,270	25						
Ecuador	1,1[illegible]0	50	15					
Haiti	1,[illegible]10	3,[illegible]	5,4[illegible]	1,[illegible]	100			
Mexico		181	150	1[illegible]	478	300	75	50
Nicaragua	2,[illegible]	1,[illegible]5	1,0[illegible]	60				
Panama	3,500	1,140	985					
Paraguay	2,4[illegible]5	1,4[illegible]5	1,[illegible]	130				
Peru	10,000							
Uruguay	7,[illegible]							
Venezuela	3,417	1[illegible]	1[illegible]		12	24		
Total	1[illegible],[illegible]	[illegible],[illegible]16	[illegible],4[illegible]	1[illegible],1[illegible]	6,[illegible]7	2,[illegible]34	1,[illegible]73	[illegible],112

[80] "Export-Import Bank Loans to Latin America," Foreign Policy Reports, No. 17, 81 (June 15, 1941).

The difficulty was Latin America's lack of dollar exchange, because more goods were being purchased from United States after 1939 due to war conditions and European markets being closed.

2. Brazilian Unfreezing Loans. The two loans made to Brazil to unfreeze blocked credits were against the bank's policy of dealing with problems that had already taken place. In February 1938 the National Foreign Trade Council of the United States, the government of Brazil and the Bank of Brazil reached an agreement whereby the Bank of Brazil issued dollar obligations, guaranteed by the Brazilian government, to American exporters in exchange for their blocked milreis balances. The Export-Import Bank was approached regarding its willingness to discount these obligations for exports. The bank finally assented to this, but only on a full recourse basis against the exporter and at a four percent interest rate. Other conditions also were imposed on discount operations and, as a result, only six percent total commitment of $27,711,551 was utilized by exporters.

A second operation similar to the first unfreezing move was made in March 1939 and it involved $19,200,000. More than 400 exporters have received payment.[31] There was no assurance that the blocked credits may not arise again, but since the Brazilian exchange system has improved, it was hoped that this would remedy the situation.

3. Road Building and Public Works Loans. One of the big items in the Export-Import Bank was the financing of road building. The Pan American highway has been the largest road building project in Latin America and $10,000,000 has been loaned for that project.[32] A total of $23,000,000 has been loaned to Costa Rica, Dominican Republic, Ecuador, Haiti, Nicaragua, Panama and Paraguay for road construction, but one-third of that amount was being used for bridges,

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31 Ibid., 36.
32 New York Times, December 22, 1940.

port developments, irrigation works and water systems.[63]

On May 1, 1941, President Roosevelt recommended an appropriation of $20,000,000 to complete the Pan American Highway from the southern Mexican border to the canal.[64] This would be about two-thirds of the money needed to finish the entire 1,500 mile stretch.

4. Heavy Transportation Equipment Loans. The bank has made loans on heavy equipment, mostly railroads, although the sale of 16 ships was included, to Brazil. Mexico, Chile, Costa Rica and Ecuador have received loans for heavy transportation equipment. The bank has agreed to [illegible] for General Electric without recourse up to 70 percent of the notes issued by the Brazilian buyer for the purchase of electrical equipment on the [illegible] Railroad in Brazil.[65] The loan will be repaid in yearly installments for ten years at four and a half percent interest.

Credits to Brazil since March, 1939, are covered by an agreement made between the Export-Import Bank and Brazil. By this agreement the Export-Import Bank would extend credits that would assist in productive capacity.[66]

5. Industrial Development Loans. A commitment was made to Brazil on September 26, 1940, for the construction of steel-mill equipment in that country. It was rumored that German and Japanese interests had offered to build a similar project in Brazil where the world's largest iron ore reserves are supposed to be.[67] In 1939 the United States Steel Company and Brazil had almost signed such an agreement when the company decided to abandon the idea.

The novel note in the agreement was the fact that while the Export-Import Bank was furnishing the funds, the mill would be entirely in the hands of the

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63 New York Times, March 13, 1941, (This was the total up until December 31, 1940).
64 Foreign Policy Reports, op. cit., June 15, 1941, p. [illegible].
65 New York Times, July 26, 1940.
66 Department of State, Press Releases, No. 44, March 9, 1939.
67 New York Times, September 27, 28, 1940.

Brazilians. The Brazilian government and private interests in that country were to invest $[illegible] either in common stock or preferred stock paying six percent interest. Although the ownership was in Brazilian hands, the bank's funds were protected by the fact that the bank would have first claim on the mill and considerable freedom in the hiring of administrative personnel, and in the purchase of materials during the duration of the loan.[33]

The loan was at four percent in 20 semi-annual installments, the first to come due three years after the first advance. The rate of interest was not low in comparison with other loans, but better terms were given than private capital could have given and it was certainly low enough to satisfy the Brazilians both commercially and politically. Moreover, complete ownership gave the Brazilian company the right to reinvest any profits or reserves.

A new trend for Latin American loans was developed when the bank loaned money to the Chilean Corporation de la Produccion. It resembled the Reconstruction Finance Corporation of the United States, although the Chilean organization participated more directly in the projects in which it was interested. It has been recognized that a liaison agency was needed in making Latin American loans and this might become the accepted method in which to help industrialize the Latin American countries.

On September [illegible], 1939, the Export-Import Bank loaned $5,000,000 to the Chilean Corporation de Fomento de la Produccion for the purchase of American industrial and agricultural products. This was increased by $12,000,000 on May 16, 1940.[34] The exact use was not specified, but it was understood that it was to be divided among the diverse departments of the government. The

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33 Foreign Policy Reports, op. cit., June 15, 1941, 87.
34 New York Times, July [illegible], 1940.

interesting aspect of this loan was that it was not supplying exchange for current needs, but rather it gave support to a project of increased national production that might not have otherwise been possible.[70]

6. Coinage Loans to Cuba. The Export-Import Bank made five different loans to Cuba totalling $[illegible] for the purpose of minting 70,[illegible] standard Cuban pesos.[71] All advances have been paid in full. The unique part of this transaction was that the United States Mint had already performed this service for Cuba before the Export-Import Bank financed.

7. Loans to the International Telephone and Telegraph Company. In order to develop its properties in Latin America, the International Telephone and Telegraph Company was loaned $[illegible] by the Export-Import Bank; $[illegible] of that loan was provided by American commercial banks. The company exports over $[illegible] worth of telephone equipment annually.[72] Another loan of $1,500,000 was granted on September 17, 1940.

The seven classifications given cover [illegible] percent of the bank's loans, the other five percent being of a miscellaneous nature.

It was interesting to note that only one import loan to Brazil has been financed on tropical products and that it was promptly repaid.

The trend of the bank's policy on loans has varied considerably since its initiation. During the first five years of its operation no loan was made to any foreign central banks to meet emergency conditions, nor was any loan made to a Latin American country to make it less dependent on American or European trade by developing domestic resources. The conservative stand in this early period was attributed to the shortage of funds or a cautious interpretation

70 Foreign Policy Reports, op. cit., June 15, 1941, [illegible].
71 Ibid., [illegible].
72 Ibid., 88.

of the purpose of the bank. As late as September, 1940, Warren Lee Pierson, director of the bank, considered all transactions as general that did not involve the making of industrial or agricultural goods.[73]

After the Act of September,1940, three important changes occurred. The $20,000,000 limit was dropped; the restriction on war materials was removed; and the policy of the bank was restated to be, "to assist in the development of the resources, the stabilization of the economies and the orderly marketing of the products of the countries of the Western Hemisphere . . ."[74] On February 26, 1940, before the above change in policy, Jesse Jones testified before the House Currency and Banking Committee that every dollar loaned to a foreign country must be spent in the United States, but six months later when testifying before the same committee, he said a certain amount of the money loaned would be earmarked for the United States, but the rest could be spent at the discretion of the borrower. Mr. Jones testified that he believed it unwise to put into law that a certain percentage of every loan must be spent in the United States.[75]

This policy has allowed Latin American countries to buy from each other and has tended to build up Inter-Latin American trade.

Only one loan has been made to a country for products that will complement the trade of the United States. This was a loan to Haiti to help develop rubber and spices. Several agencies have been studying the possibilities of developing Latin American resources, chiefly the Inter-American Development Commission.

Countries that have expropriated American property have been unable to

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73 Ibid., [illegible]
74 "Loans to Latin America," Bulletin of the Pan American Union, January, 1941, 52.
75 Foreign Policy Reports, [illegible], June [illegible], 1941, [illegible].

[illegible]

loan because of cancelling the Standard Oil concession.

[illegible][76] [illegible]

months while waiting for delivery.

[illegible]

the credit insurance feature inherent in the program.[77]

[illegible]

tober 8, 1941, that not a penny was in default.

[illegible]

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76 New York Times, [illegible] 30, 1941.
77 Ibid.

fore.[78]

All Latin American loans of the Export-Import Bank in July, 1941 did not amount to $[illegible],000,000. Latin American [illegible] until that time had given Latin American countries credits of nearly $[illegible],000,000.[79] These figures tended to prove that the Export-Import Bank was proving a success.

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78 New York Times, [illegible]er 8, 1941.
79 New York Times, July 1[illegible], 1941.

CONCERNING THE MEXICAN OIL PROBLEM

Although the Mexican oil dispute was interesting as an economic problem, the most important factor was the way it, as an economic event, affected the diplomatic relations of the United States and Mexico. The method of settlement adopted in this case will probably be a precedent for several other problems that are pending in other Latin American republics. The case itself demonstrated that [illegible] his promise of abandoning "Dollar Diplomacy" and being the "Good Neighbor."

When Mexico expropriated the oil properties in March of 1938, it was the climax of a 20 year old struggle. In 1917 the constitution adopted by Mexico was strongly nationalistic and Article 27 declared that the petroleum resources were the property of the nation, but it further stated that private property could be expropriated only for reasons of public utility and by means of indemnification.

The meaning of this clause has caused trouble between the two countries for the past two decades, but it came to a head once before in 1927. A compromise was arranged between the two countries at that time by President Calles and Ambassador Dwight Morrow, which recognized oil rights acquired before 1917 and the Mexican government issued "confirmatory concessions" of a permanent nature. However, during the past ten years the Mexican government has withheld issuance of many "confirmatory concessions."[1] The government instead has placed the greater part of the oil reserves in the hands of a government bureau known as the General Administration of National Petroleum.

The struggle has been between Mexican government and labor unions in opposition to British and American governments and capital. The expropriation came as the result of a labor strike in the British and American oil companies in Mexico. The strike was over wages and hours. Both sides, after an

appeal from President Calles, agreed to hold a joint conference in an effort to reach a satisfactory settlement. The conference was held in Mexico City from early November, 1936 until May 26, 1937. As no agreement was reached, although both sides were willing to give in on a few points, a strike was called that lasted from May 27, 1937, until June 9, 1937. It was through presidential influence that the strike was lifted as President Calles persuaded the Labor Syndicate to present the matter to the Labor Board. The Labor Board rendered a decision strongly in favor of the labor syndicate. Among other things a 40 hour week was suggested with pay for 56 hours, vacations of from 21 to 30 days per year, 18 other holidays with full pay, triple pay for rest and holiday work, pensions, insurance, hospitalization, and other social measures to be given to the workers.[80]

The companies also were limited in their personnel work. There could be no discharge or cutting of employees without consulting the union, but if the union demanded it, the worker must be discharged. If any workers were laid off, the non-union workers must go first. Key positions in the industry must be filled with union men and union men must be on the legal staff.

On December 28, 1937, the oil companies filed a petition for an injunction in the Supreme Court against the findings of the Labor Board. While the case was before the court, President Cardenas accused the oil companies of launching a publicity drive to influence the court, while the companies contended that the government policy was biased in favor of labor and that the current statements made by President Cardenas had greatly influenced the court.

The Supreme Court ruled on March 1, 1938, that the injunction was to be

80 Charles A. Thomson, "The Mexican Oil Dispute," *Foreign Policy Reports*, August 15, 1938, 124.

denied. The Labor Board ruled that its demands must be complied with by noon on Monday, March 7, 1938. As the companies made no move to agree to the decision of the Labor Board, their bank accounts were taken over to cover the pay roll during the [illegible] strike of 1937. But no attempt was made to take over the properties of the companies. The president of Mexico personally promised that the increase in wages would not be more than [illegible],000,000 pesos instead of the [illegible] pesos that the company experts had estimated. The companies finally agreed to pay this if they could have control of the personnel. The Mexican authorities refused this offer. On March 16, 1938, the Labor Board warned that its proposals must be accepted the following day and on that date the companies made the statement that they were unable to comply. Two days later the Labor Board broke the contract between the company and the union, making the company responsible for dismissal wages to all employees. On Mar. 18, the union ordered work stopped at all plants and that evening President Cardenas issued his decree expropriating the properties of seventeen British and American companies, chiefly representing the Royal Dutch-Shell, and the Standard Oil and the Sinclair groups.[81]

This presidential decree was based on the Expropriation Act of November, 1937. Under this law private property could be seized, not only for reasons of public necessity, but for the public and social welfare. The companies were to receive payments within ten years on a percentage basis to be determined later. President Cardenas was criticized by some Americans for not just attaching the property, but he countered with the claim that the companies would be able to use economic pressure by limiting production and marketing of oil. "This would cause a crisis," President Cardenas said, "that would

81 [illegible], op. cit., 126.

threaten not only the progress, but the peace of the country.[81]

This was the most direct challenge that Mexico had ever thrown at foreign capital. The promised payment for the oil lands was the seed for external Mexican trouble. Internally the president was visiting hard times and his regime had to run the administrative end of the oil business efficiently enough to make a profit large enough to meet the various demands.

The president at first offered the proposal of a bond issue to help pay for the expropriated oil lands. This idea was dropped on June 30, 1938.

Mexico entered the oil expropriation era at a poor time as the metallic reserves had dropped almost one-half in the early part of 1938 and were within 10,000,000 pesos of the legal limit. On January [illegible], 1938, the United States had agreed to buy 35,000,000 ounces of silver in addition to the regular monthly purchase of 5,000,000 ounces, but with the oil expropriation decree the United States cancelled the order.[82] This forced the Mexican government to abandon the support of the peso and it dropped in value from 27.80 cents in American money to [illegible] cents before recovering to [illegible] cents.[83]

On May 21, 1938, four American companies presented a claim to the attorney general of the United States that they had been denied justice. No action was taken until March 27, when Secretary of Treasury Morgenthau announced monthly purchases of silver would stop. Up until this time critics in Congress and the press were accusing President Roosevelt of aiding the Mexican expropriation program with silver purchases.

Washington sent a note of protest to Mexico on March 27, 1938, but its contents have been [illegible]. However, on March 30, 1938, Secretary of

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82 Thomson, *op. cit.*, 127.
83 A summary of Mexican currency policy may be found in *New York Times*, April 3, 1938.

State Hull made the following public statement:

> This government has not undertaken and does not undertake to question the right of the government of Mexico in the exercise of its sovereign power to expropriate properties within its jurisdiction. The government has, however, on numerous occasions and in the most friendly manner pointed out to the government of Mexico that in accordance with every principle of international law, of comity between nations and of equity, the property of its nationals so expropriated are required to be paid for by compensation representing fair, assured, and effective value to the nationals from whom these properties were taken.[34]

Mexico's reply of March 31, signed by President Cardenas himself, assured Washington that, "Mexico will know how to honor its obligations of today and of yesterday."[35] President Roosevelt helped to clear the air of tension by saying he was satisfied with the progress of the negotiations.[36]

The value of the expropriated holdings was estimated to be from $[illegible] to $[illegible] with the American properties set at $[illegible] to $[illegible].[37] A Department of Commerce study based on company statistics fixed $[illegible] as the total of American investments in Mexican petroleum interests at the end of [illegible].[38] Of course the companies have argued that this figure didn't include the oil underground, which was after all the reason for risking such huge investments in leasing and drilling. On the other hand the Mexican Industrial Census of [illegible] placed the value of American oil property at [illegible] pesos ($[illegible]).[39]

On November [illegible], 1941, a settlement was signed between Mexico and the United States regarding the oil claims. The total amount to be paid was not decided,

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34 Press Releases, Department of State, April 2, 1938.
35 Ibid.
36 New York Times, April 2, 1938.
37 These are press estimates and as the companies had set no valuation, it is not clear on what basis this estimate was given.
38 Paul D. Dickens, "American Direct Investments in Foreign Countries, 1936," (U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, [illegible]), 14.
39 Thomson, op. cit., 127.

but a payment of $[illegible],000,000 was made as a "deposit." Standard Oil rejected an offer for $17,[illegible],000 as a complete settlement.[90] In the same pact the United States agreed to continue silver purchases, and help stabilize the Mexican peso. The United States was to loan $[illegible] to Mexico for completing Mexico's part of the Pan American highway and was to make a payment for all general claims against earlier administrations, dating back to 1868, amounting to $40,000,000, to be paid in fifteen yearly payments.[91] With the signing of the pact, the United States and Mexico were on better terms than at any previous time in their relations.[92]

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90 New York Times, October [illegible], 1941.
91 New York Times, October 4, 1941.
92 New York Times, October [illegible], 1941.

GERMAN AND UNITED STATES TRADE RIVALRIES IN LATIN AMERICA

In the decade following the depression, Germany became a serious competitor to the United States in the Latin American republics, both politically and economically. The Nazis started an intensive trade drive about the same time the United States inaugurated the Trade Agreements program.

The German foreign policy in Latin America has been regarded as unscrupulous by the business men of the United States.[93] The Nazi government has apparently used any and all means at its disposal to discredit and replace the United States business in Latin America. There have been instances of the Germans using United States trade marks to obtain business.[94] The Nazis tried to get the Japanese to name a town Usa, so they could label their goods as made in the U. S. A.[95]

Ever since the turn of the century German business houses have been sending young men to Latin American countries to be their representatives. Unlike the Americans these representatives have gone to Latin America with the idea of taking out naturalization papers and marrying native girls, so that such representatives have been able to become respected citizens, who in due time have had an inside track on most business deals. There are 5,000,000 Germans living in Latin America, including 5,000 German school teachers and this element has wielded considerable influence in Latin America.[96]

Since the Nazis have taken control of Germany, they have used three main approaches in getting new business. First, they have quoted lower prices than American firms. German business firms have been able to do this because

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93 "Nazis Here in Latin America," Business Week, July 27, 1940.
94 William La Varre, "Hitler's Plan for South America," American Magazine, CXXX, 17 (November, 1940).
95 Ibid., 17.
96 Ibid., 17.

their government has been working in close cooperation with business in order to expand German foreign trade. Even if a subsequent loss resulted from a business deal due to under bidding, the Nazis felt that the loss could be charged to propaganda.[97]

Secondly, the German government has used means of propaganda to help sell German products. In the 1930-38 period, it was estimated that the Germans spent $8,000,000 on propaganda in Latin America.[98] The German government realized that political and economic trends go hand in hand. Germany has furnished news service free to any newspaper and their short wave stations were continually broadcasting to Latin America.

Third, the Germans have made a concentrated effort to please their Latin American consumers. Salesmen from Germany came to Latin America and studied trends, the likes and dislikes, and the needs of each individual country. These ideas were sent to German factories and the ultimate finished products which resulted were invariably good sellers in Latin America. In 1939, 100 trade specialists were sent from Germany to study trade conditions in Latin America and to investigate possibilities for new markets.[99] Too often in the past American firms have only turned to Latin America when no other market was available and then when other markets were found, no more Latin American orders were taken.

After the approach for business has proved successful, the Nazis have used diverse methods to hold the trade. They have been able to quote low prices for they ship goods in German subsidized ships. Another method of keeping the price down was paying for goods shipped into Germany in ASKI marks. The

97 [illegible], _op. cit._, [illegible].
98 La Varre, _op. cit._, 17.
99 _Ibid._, 17.

ASKI marks can be used only on specified German products. If the seller was willing to use these marks, the government has often given a discount of 40 percent on the marks as well as offering the Latin American importer 20 percent lower prices if they paid for goods in German ASKI marks.[100]

Thus by taking blocked marks the Latin American exporter was able to get rid of surpluses, but was practically forced to carry on bi-lateral trade with Germany. Although the Germans have penetrated all Latin American countries in an economic sense to some extent, their trade has mainly centered in Chile, Brazil and Mexico.

The German-Chilean compensation treaty went into effect on February 1, 1934 and on December [illegible], 1934, another unconditional most-favored-nation commercial treaty was effective. One of the most important features was that Germany was to import 80,000 tons of Chilean nitrates duty free every year. Germany also allowed an extra quota of 11,664 tons to come into the country duty free between August [illegible], 1936, and June [illegible], 1937.[101]

In July, 1936, Germany signed a trade treaty with Brazil for one year. Brazil agreed to export 62,000 tons of cotton against ASKI marks and Germany agreed to buy 1,000,000 bags of coffee, 10,000 tons of tobacco, 10,000 tons of frozen meats, 4,000 tons of bananas, and 300,000 cases of oranges, while no duty was to be imposed on rubber, cacao, minerals and other raw products for German industries.[102] Brazil found an outlet for some surplus products, but only at the expense of limiting the amount of foreign exchange available for meeting payments for imports and financial services elsewhere.

In 1936 Germany made a strong bid in Mexico for Mexican oil and other

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100 Ibid., 17.
101 Howard J. Trueblood, "Trade Rivalries in Latin America," Foreign Policy Association, February 15, 1937, 162.
102 Ibid., 160.

raw products to be paid for mostly in ASKI marks. This offer came immediately after Mexico expropriated the American-British properties. In that year alone Germany took over $14,000,000 of trade away from the Anglo-American countries in Mexico.[103] Germany has been making large inroads in Mexican commerce ever since the Nazi regime came into power. Mexican imports from Germany in 1930 were eight percent of the Mexican total, but in 1938 they had grown to 16 percent. In that same period United States share of Mexican imports dropped from 69.1 percent to 57 percent.[104]

In 1932 Germany bought 7.4 percent of the total Latin American exports and sold 9.5 percent of all Latin American imports. In 1936 Germany was buying 9.1 percent of total Latin American exports, but was selling Latin American countries 16.7 percent of all their imports. Germany was able to increase her sales to Latin American by 60 percent while increasing her purchases barely 10 percent.[105]

However, in most instances the United States has held her own in the markets of Latin America. Franklin Johnston, publisher of the <u>American Exporter</u> said on June 13, 1939,

> Germany was the only dictatorial State which has made great export gains in Latin American markets in the last six years and the increases have all come at the expense of the British rather than American trade.[106]

However, Warren Pierson, Export-Import Bank president cautioned,

> Our past and present successes, however, must not lead us into too complacent a frame of mind. New commercial and economic forces have quietly been gaining strength in recent years. The established totalitarian State may mean more than a threat to democratic peace. Commercial penetration is frequently followed by political domination.

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103 Ibid., 342.
104 See Table 9.
105 Ibid.
106 New York Times, June 14, 1939.

> Today the challenge is being thrown down in every Latin American country. Centrally directed propaganda, by radio, press and handbills, is rampant. Ordinary rules of competition are not observed by our formidable rivals. In a word our business men face the ever increasing competition of foreign governments.[107]

The United States brought out another weapon to fight the German system in September, 1940, when the government announced $500,000,000 would be loaned to Latin American countries through the Export-Import Bank to buy American goods.

In the summer of 1940, German salesmen were taking orders for goods to be delivered in October (after the defeat of England).[108] Cash bonds were given as guarantee that the deliveries would be made. This was powerful propaganda for it contained the guarantee to the Latin Americans that the Germans were sure to win the war and that closer cooperation with Germany was therefore desirable.[109]

When it became apparent that the British blockade was not going to be broken, German agents started buying goods in the United States to fill the Latin American orders taken the summer of 1940. This called for retaliation measures by the United States government. The first step was suggested by the British in May, 1941. They asked the Americans to help their war effort in three ways: freeze all German and Italian assets in Latin America, take over wherever possible business formerly held by the Germans in Latin America, and to refuse to refuel any ship not having a British refueling permit.[110] The British had issued a black list of all Latin American firms having Axis connections.

Later in May, 1941, the United States began compiling records on all business concerns and agents in Latin America. The work was done by various Amer-

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107 New York Times, October 30, 1939.
108 "Basic Wars in Latin America," Business Week, July 27, 1940.
109 Ibid.
110 New York Times, May 8, 1941.

Table 8. Foreign trade of 20 Latin American countries[111]
in specified years 1929-1938.
(Value in thousands of U. S. dollars)

	1929		1932		1936		1937		1938	
Exports to all countries:	Value	Percent of value	Value	Percent of value	Value	Percent of value	Value	Percent of value	Value	Percent of value
All countries	2,912,270	100.0	[illegible]	100.0	[illegible]	[illegible]	[illegible]	100.0	1,802,300	100.0
United States	[illegible]	[illegible]	[illegible]	31.9	[illegible]	[illegible]	[illegible]	30.3	543,989	30.2
United Kingdom	[illegible]	[illegible]	[illegible]	19.5	[illegible]	[illegible]	[illegible]	17.6	302,457	16.8
Germany	[illegible]	[illegible]	[illegible]	7.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.3
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.1
Imports from:										
All countries	[illegible]	100.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1,437,071	100.0
United States	[illegible]	38.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	33.3
United Kingdom	[illegible]	15.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	11.7
Germany	[illegible]	10.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	16.2
Japan	14,757	.6	[illegible]	1.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2.6
Italy	113,411	4.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.3
France	[illegible]	5.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.3

111 "The Foreign Trade of Latin America," United States Tariff Commission, 1940, 41.

ican governmental departments and business firms and the information was co-ordinated by Nelson A. Rockefeller. Mr. Rockefeller said,

> Our objectives are to withdraw from these subversive elements the financial support and prestige acquired through representation of United States business, which have been using this prestige to combat and weaken hemisphere solidarity . . . We have communicated with some 17,000 companies interested in export trade and have requested them to use care in selecting new representatives and accounts.[112]

On June 14, 1941, the United States went a step further and froze the assets of any "Continental European nation or a national thereof situated in the United States."[113]

On July 1, 1941, the United States took further action in an effort to combat Axis agents in Latin America. The United States ordered that any individual or firm doing business with any of the 29 European countries or their nationals, must secure a license from the United States before the business is transacted.[114] A fine of $10,000 and ten year prison terms were provided for failing to secure the permit. This regulation worked a hardship on scores of business houses in Latin America that carried Spanish or Portuguese names, as some of these were owned by European nationals, but a considerable number were also owned by Latin Americans. Many American exporters hesitated in doing business with these companies, for they were not sure of the importers' nationalities. Axis agents were able to get around this order partially by having a Latin American national import products in his own name.[115]

On July 18, 1941, President Roosevelt by proclamation placed 1,800 firms in Latin America on a United States "black list" because of Axis connections.[116] This list was the result of an earlier survey made by Nelson

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112 New York Times, June 15, 1941.
113 New York Times, June 14, 1941.
114 New York Times, July 1, 1941.
115 Ibid.
116 A complete list in New York Times, July 18, 1941.

Rockefeller with the cooperation of government bureaus and private business. Under this proclamation the United States refused to license any American exporter, who was doing business with any of the Latin American firms specified on the "black list." One thousand United States accounts were lost by business agents in Latin America. Almost 50 percent of Latin American import firms were on the list.[117] The United States also listed several firms that had never imported from the United States to keep them from trying to get contracts.[118] The "black list" of the United States was more inclusive than the British list as more firms were listed. Numerous American companies were forced to replace managers and agents, whose names appeared on the "black list."[119]

To further insure that the Nazis could find no loopholes to obtain American goods, a license must be issued on every foreign export order and a priority list was to be used in sending goods. Regarding getting a license, Mr. Rockefeller said,

> The treasury requires "evidences of ownership," such as bills of lading and other documents required for importing as well as exporting, in so far as the listed firms or individuals are concerned.[120]

Sumner Welles, Undersecretary of State, called a special plenary session of the Inter-American Financial and Economic Advisory Committee and explained how the new program would work:[121]

> . . . Two parallel procedures for handling all exports, licensing and priority matters, depending upon whether the import requirements in question are those, on one hand, of a government of an American Republic or relate to needs which a government wishes to sponsor, or those on the other hand, of any person or concern in other than American Republics.[122]

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117 *New York Times*, July 18, 1941.
118 *Ibid.*
119 *Ibid.*
120 *New York Times*, July 18, 1941.
121 *Ibid.*
122 *Ibid.*

In regard to non-governmental trade practices, Mr. Welles said the United States would furnish information regarding priorities and export licenses. The new program enclosed the Americas within a wall designed to reduce German and Italian propaganda, as well as to tighten the economic blockade on the Axis. It was found in one South American country that $800,000 was being derived by pro-Axis agencies from American trade and spent for propaganda purposes.[123]

On October 3, 1941, the United States announced the compiling of a "grey list" of suspected Latin American firms with Axis ties, but this list was not published. There was not enough evidence available against the suspected agencies to put them on the "black list," but on the strength of the "grey listing" such agencies were refused an export license and Latin American newspapers on the list were refused newsprint, ink, and zinc plates.[124] As war supplies are limited, no agency on the "grey list" was given priorities on any given materials. On December 4, 1941, 130 additional names were added to the "black list," but ten names were removed.[125]

The German filtration of Latin America was a serious problem before the Second World War. This section sketched an outline of German methods in Latin America and the American business men would do well to use some of the ethical German methods of getting and holding business in Latin America. This German trade drive was the chief reason for the Export-Import Bank changing its financial policy in 1940.

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123 New York Times, August 5, 1941.
124 New York Times, October 3, 1941.
125 New York Times, December 4, 1941 gives a complete list.

INTER-AMERICAN ORGANIZATIONS TO PROMOTE TRADE IN LATIN AMERICA

Inter-American Arbitration Commission

One of the earliest committees formed in the "Good Neighbor" era was the Inter-American Commercial Arbitration Committee, which was an outgrowth of two organizations in the United States: the American Arbitration Association and the Committee of Inter-American Relations.

The American Arbitration Commission was established in the early 1920's. The purpose was to settle disputes between business firms in the United States without going to the expense of taking a misunderstanding to court. Both parties to the dispute were required to sign a contract agreeing to abide by the decision of the tribunal. No court has ever reversed a decision passed by the Commission.[126] The tribunal was composed of a group of non-biased business men. From [illegible]-1930 the Commission settled [illegible] controversies involving millions of dollars at an average cost of [illegible] per case.[127]

The Committee of Inter-American Relations was founded on March 6, [illegible], by a group of New York business men.[128] Their purpose in organizing was mainly to retain and promote the increase of Latin American trade, although the Committee also encouraged the study of social, cultural and intellectual characteristics in the countries south of the Rio Grande. Various studies were made, such as Latin America's commercial possibilities, investments and public credits. In [illegible] these two groups got together with Latin American representatives and organized the Inter-American Arbitration Commission.

The plan finally adopted called for an arbitration commission with powers

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126 "Inter-American Commercial Arbitration," *Bulletin of the Pan American Union*, [illegible] (July, [illegible]).
127 *Ibid.*, 520.
128 *Ibid.*, 520.

almost identical with those of the older United States organization. A panel of 150 arbitrators selected from all the countries in Latin America and the United States were to be the judges. For every "trial" two men from the United States were selected and three from various Latin American countries. In order to keep the costs down to one or two percent of the money involved, the arbitrators were to give their services free of charge.[179]

At the Pan American meeting at Montevideo in 1933, this Commission was adopted by the Pan American Union with a few minor changes.

> The Commission may create branch organizations in each American Republic to promote the establishment of an Inter-American system of arbitration for the settlement of commercial disputes; may authorize the establishment of Inter-American Commercial Arbitration Tribunals and provide rules and regulations therefore; may make arrangements for the conduct of arbitrations; may demand the enactment of arbitrations, may recommend the enactment of arbitration laws or the amendments of existing arbitration laws; may call arbitration conferences; and may take any other action to promote arbitration as may seem desirable.[180]

The three main policies in settling disputes between firms engaged in Inter-American commerce were speed, fairness and low cost.[181]

From the date of origination to 1941 over 150 disputes have been settled and the costs have run from $10.00 to $100.00 per case.[182] In accordance with the above stated policy, the Commission was usually able to come to an agreement in a few hours. No lawyers were needed at the hearings, but only representatives of the firms. One of the main causes for ill feeling between the Americas in the past has been disputes between Inter-American firms. The Commission in 90 percent of the cases has settled the disputes to the satisfaction of both sides.

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179 Ibid., 551.
180 Howard J. Trueblood, "Progress of Pan-American Cooperation," Foreign Policy Reports, February 15, 1940, 287.
181 "Inter-American Commercial Commission Accepted by Conference at Montevideo," Bulletin of the Pan American Union, LXVIII, 869 (November, 1934).
182 Cornelius Vanderbilt Whitney, "Arbitrating Trade in the Americas," Rotarian, April, 1941, 8.

Inter-American Coffee Agreement

The coffee problem has recently presented another snarl in the smooth running of the Inter-American economic policy. Brazil's main coffee market was the United States. Before the war Brazil was over producing coffee and the government subsidized the buying and burning of coffee.[illegible] Since the war has cut off European markets, rival coffee producing countries, such as Colombia, Guatemala, Nicaragua, El Salvador, that have previously depended on European markets, have turned to the United States and as a result Brazil has more competition.

In an attempt to relieve this state of affairs, an Inter-American Coffee Quota Agreement was signed on November 28, 1940, by 14 coffee producing countries and the United States. It is hoped that this agreement will promote orderly marketing and prices suitable to both the producer and consumer. Table 10 shows the schedule prepared by the Inter-American Economic and Financial Advisory Committee for the coffee agreement.

Furthermore, the United States has limited importation of non-American coffee to an annual quota of 355,000 bags of 132 pounds each. This agreement is controlled by the Inter-American Coffee Board composed of one delegate from each country. The board, whose seat is in Washington, is financed by the participating countries. One-third of the expense of operation is paid by the United States and the remaining two-thirds is divided among the 14 Latin American republics.

The board tabulates coffee surpluses of all Latin American countries and may change the quota at any time in order to balance the supply and demand for

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[illegible] [illegible] Allman, "Bounty of the New World," Survey Graphic, XXX, 118, (March, 1941).

Table 10. Inter-American coffee agreement[134]
(Bags of 132 lbs. each)

Producing country	Export to United States	Export to all other markets
Brazil	9,300,000	7,813,000
Colombia	3,150,000	1,241,000
Costa Rica	200,000	242,000
Dominican Republic	159,000	150,000
Ecuador	150,000	96,000
El Salvador	600,000	357,000
Guatemala	535,000	312,000
Haiti	275,000	327,000
Honduras	20,000	21,000
Mexico	475,000	[illegible]
Nicaragua	195,000	114,000
Peru	25,000	43,000
Venezuela	[illegible]	[illegible]
Total	15,545,000	11,012,000

ary certain type of coffee. This agreement is to remain in force until October 1, 1943, although any member may withdraw after prior notification of one year to the Pan American Union. If [illegible] percent of the governments withdraw, the agreement is automatically terminated.

This rationing has given the United States a quota of 15.5 million bags, which is two million more than the United States ever used.[135] Furthermore, the United States had one and a half million bags on hand when this agreement was signed. Colombia has set nine cents per pound as her minimum price, while Brazil is considering 11 cents.

134 ("Inter-American Coffee Quota Agreement"), Bulletin of the Pan American Union, January, 1941, 53.
135 Time, June 23, 1941.

Inter-American Economic and Financial Advisory Committee

At the meeting of the Foreign Ministers at Panama in 1939, a resolution was passed creating the Inter-American Economic and Financial Advisory Committee.

The committee was formed as a result of the economic problems caused by the war. The committee was authorized to

> (a) Consider and advise on problems of monetary relationships, foreign exchange and balance of payments; (b) study means of stabilizing inter-American monetary and commercial relationships; (c) "provide, with the cooperation of the Pan American Union, the means for the interchange" of economic information and various statistical data; (d) "study and propose to the Governments the most effective measures for mutual cooperation to lessen or offset any dislocations which may arise in the trade of the American Republics" as a result of the war; (e) "study the possibility of establishing a customs truce," and consider other measures destined to remove existing obstacles to inter-American trade; (f) consider the necessity of establishing a Pan-American bank; (g) "study the measures which tend to promote the importation and consumption of products of the American Republics;" (h) "study the usefulness and feasibility of organizing an Inter-American Commercial Institute" for the benefit of importers and exporters; (i) "study the possibility of establishing new industries and negotiating commercial treaties;" and (j) "study the possibility that silver be also one of the values for international payments."[186]

The committee was composed of one economic expert from each of the 21 American republics. The inaugural session was held in the Hall of the Americas of the Pan American Union on November 15, 1939. At that session it was voted to sit for the duration of the war for the purpose of studying the grave financial and economic problems arising from the war. The committee agreed to advise the republics on the most effective ways to combat these problems.[187]

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186 *Report of the Meeting of Ministers of Foreign Affairs of the American Republics, September 23–October 3*, (Washington, Pan American Union, 1939), *Congress and Conference Series*, No. 29, 11.
187 "Inauguration of the Inter-American Financial and Economic Advisory Committee," *Bulletin of the Pan American Union* LXXIV, 1 (January [illegible], 1940).

Under Secretary of State Welles in an opening address before the committee outlined the proposed action in two different groups.[illegible] First, to adjust the economic dislocations and unbalances caused by the war, and second, to make a continuous effort to create conditions or institutions which would stabilize economic and financial dealings between the American peoples. This last statement led to the formation of the Inter-American Development Commission and the proposed Inter-American Bank.

At the opening session of the Commission a resolution was adopted to ask the United States Maritime Commission to give them information in regard to shipping to Latin America and to study the possibility of increasing shipping facilities. A resolution was also adopted asking the United States Department of State to aid in lowering shipping costs between the Americas.

Inter-American Development Commission

After the Inter-American Financial and Economic Advisory Commission met in Panama in 1940, they agreed to form the Inter-American Development Commission. At the present body is headed by the Under Secretary of State, Sumner Welles, and has representatives of the 21 American republics, the Inter-American Development Commission represents the action of all American republics.

The Inter-American Development Commission was formally organized on June 3, 1940. According to the last organization, the chairman was Mr. Nelson A. Rockefeller, who was also Coordinator of Inter-American affairs. The vice chairman was Mr. J. Rafael Oreamuno, formerly Minister of Costa Rica in Washington and a prominent international lawyer and banker. The other commission-

[illegible] Ibid., 1.

ers were Mr. [illegible], managing director of the Lloyd Brasileiro Steamship Company, New York City; Mr. [illegible], special representative for the Westinghouse International Corporation and formerly vice-president of the Westinghouse Company in Cuba; and Mr. [illegible], consul general of Chile, New York City. The executive secretary was Mr. John C. [illegible], who was also executive assistant to the coordinator of Inter-American affairs.[139]

The resolution authorizing the Commission stated it was to be designated as a permanent Commission and should conduct the necessary technical studies, compile basic information, establish contacts between interested parties, and recommend in each case or in general the facilities and assurances which these enterprises should obtain from Latin American governments.

The enterprises of the Commission were to be three fold: the exploration and exploitation of the mineral resources in Latin America, the cultivation and marketing of agricultural and forest products, and the establishment and development of industrial plants.[140]

In order to follow the above outline, the Commission has proceeded along three lines. First, there has been an attempt to stimulate the increase of non-competitive imports from the other American republics to the United States.

Of intense interest to the National Defense Program was the wide selection of materials found in the various republics. The 14 materials listed by the army and navy as strategic are found in the Latin countries in varying amounts: [illegible], antimony, chromium, coconut-shell char, ferrograde manganese, tin, tungsten, manila fiber, mercury, mica, nickel, quartz crystal, rubber and quinine. Of the 15 critical materials listed by the Munitions Board

139 Report of the Inter-American Development Commission, September, 1941, 1.
140 Ibid., 2.

aluminum, asbestos, [illegible], hides, [illegible], [illegible], quartz, platinum, tanning materials, vanadium, and wool are found in Latin America. In addition to these copper, nitrates, industrial diamonds, zinc and lead are being imported for defense purposes.

The second phase of this far reaching program is the stimulation of trade between the American republics. Primarily the Commission decided that the trade built up should be of a permanent nature, which would endure after the war is over and in face of the old time competition. Prior to the war, the inter-Latin American trade amounted to only 10 percent of the total commerce of the 21 republics.[141] This was partly a carry over of the old Spanish mercantile system that demanded all products be sent to Spain and then be redistributed. Since the European market and the Asiatic market had been virtually closed, the republics were able to see the advantages of economic collaboration more clearly. Collaboration has been urged not only as a means for economic gain, but as a means to stop economic penetration after the war of European powers, whose interests are inimical to those of the Western Hemisphere. Trade agreements were being worked out between Argentina and Brazil, Brazil and Colombia, and Argentina and La Plata republics, which were designed to increase trade between the participants.[142]

The basic purpose of this stimulation was to increase the dollar exchange, not only to give the Latins much needed purchasing power, but to strengthen the economic systems of the republics, which have become badly disorganized since the war in 1939. There have always been a number of products that have formed the chief articles of trade between the Latin American countries

141 Report of the Inter-American Development Commission, September, 1941, 4.
142 Ibid., 4.

and the United States, but the Commission was interested in developing new trade products. As trade with many countries has been cut off from the United States, because of the war, there was a demand for many strategic products that the Latin Americans could furnish. There were fibers, such as jute, manila, hemp, hemp substitutes, flax, flax substitutes, high grade wools, and kapok that United States has been buying in large quantities from other sources, but which could now be furnished by the Latin American countries. The same was true of numerous vegetable oils such as oiticica, babassu, castor, palm and cohune. Food products such as sage, thyme, saffron, poppy seed, marjoram, Polish hams, Italian sausages, palm heart, Italian cheeses, champagne and various wines could likewise be included in this classification. In the area of drugs, quinine, digitalis, ipecac, iodine, curare, rotenone, and coca have been attracting the largest numbers of North American importers.

The third step was to encourage the development of industry in various republics. This step was to serve a dual purpose, that is, to raise the Latin American standard of living and to save needed exchange. Again the Commission was trying to avoid establishing any industries that might prove uneconomic in their operation, but rather the Commission was trying to establish industries to provide cement, galvanized iron, shoes, soap and foodstuffs that can be produced locally and so make Latin America less dependent on Asia and Europe.

In the summer of 1940 the Commission tried out two plans as test cases for the ability of the organization to carry out objectives. As Brazil produced cassava root, from which may be taken a tapioca starch, the Commission started a campaign to improve its quality. The tapioca starch in former years was processed so poorly that none of it could be used by the United

States. The original purpose was to set up a modern processing plant as a cooperative among the leading tapioca producers, but as a result of the interest created by North American tapioca users, the producers were encouraged to open a number of small plants, which have been turning out a tapioca of the quality required by the United States and in fair volume. Not only has this given Brazil another export to the United States, but several new industries have been given impetus that were dependent on high grade tapioca, such as adhesive, dextrine, and improved textile and paper industries.

The second project launched was a retail plan designed to stimulate the buying of Latin American handicraft objects that were formerly purchased from Europe and Asia. This time the work was done in the United States among the buyers in department stores in an effort to make the North Americans conscious of Latin American handicraft. In a short time importers were reporting a large demand for such material, but at the present writing the definite facts are still lacking. If this plan works out, it will be a new industry in all Latin America that should raise the standard of living as well as create dollar exchange.

The Inter-American Development Commission has recently established Commissions in the capitals of Latin America. Vice-chairman Orezmuno and Commissioner Magalhaes have spent considerable time in Central America setting up commissions.[146] Commissions had been organized in Latin America by August, 1941. These country commissions were made up of five nationals of each respective republic giving representation to industry, finance, agriculture and mining, transportation and government. In each case the executive secre-

146 "Additional Councils to the Inter-American Development Commission," The Hispanic American Historical Review, August, 1941. The councils in their order of establishment are in Brazil, Argentina, Uruguay, Paraguay, Chile, Bolivia, Peru, Colombia, Ecuador.

tary of the country commission was a member of the foreign office of his respective country.

The Commission had established a merchandising Advisory Agency in New York City to give counsel and technical advice to Latin American exporters unfamiliar with the North American market, having particular reference to retail articles, foodstuffs, and other manufactured products which might be demanded in the United States.

Inter-American Bank

On April 14, 1890, at the first Pan American Conference a resolution was passed by vote of 14-0 to establish an Inter-American Bank.[144] This was mentioned at another meeting in 1902, but nothing was done until almost four decades later. When the Inter-American Financial, Economic and Advisory Committee was formed in 1939, one of the committee's instructions was to organize an Inter-American Bank.

At a meeting of this organization in Washington in May, 1940, Bolivia, Colombia, the Dominican Republic, Ecuador, Mexico, Nicaragua, Paraguay and the United States signed an agreement in favor of the bank and adopted its rules. The purpose of the bank was to stabilize currencies and loosen credits for exchange of goods and build up resources of Central and South America to insure more exchange of goods. It amounted to more free trade in the Western Hemisphere, which has been honeycombed with bi-lateral agreements.

The powers of the bank were broad. They were:

> the same as commercial and investments banks. Loans could be made with governments, fiscal agencies, central banks, local governments, private individuals and business firms. If loans were made with

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144 "War Spurs the Inter-American Bank," Business Week, May 18, 1940, 60.

private enterprises at terms longer than two years, the contracts must be guaranteed by their governments.

The bank may make a short term, intermediate or long term loans, in any currencies, securities or bonds of any participating government; guarantee credits or loans made to any government; act as a clearing house for banking funds and credit instruments; deal in precious metals, currency or foreign exchange on its own account and on account of others; secure the availability of foreign exchange at agreed rates; issue or sell debentures or other bonds or securities of the bank; borrow from any participating countries, their banks or from a national.

It may also demand time, and custody deposits paying interests only on deposits of national or local governments, fiscal agencies and central banks; discount and rediscount bills, acceptances or other instruments of credit taken from the banks portfolio; open and maintain sight, time and custody deposits and accounts for government and banking institution and arrange for both the latter to act as agents or correspondents of the bank; act as an agent or correspondent of any participating government or fiscal agencies, central banks and local governments; buy or sell or deal in cable transfers, accept bills and drafts drawn upon the bank, and issue letters of credit.[145]

The bank was to be governed by a board of directors, one from each country appointed for two years. The board must meet four times per year. The board elects a president and vice-president to hold office two years. By four-fifths vote the board may elect an executive committee and the board may delegate powers to that or any other committee.[146]

The bank was to be chartered by the United States Congress. Each country must have the bank ratified and place the required funds with the Pan American Union. The bank will go into operation as soon as five countries have ratified the bank, and have placed funds with the Union.

Each participating country was to purchase a minimum number of shares, determined by each country's trade total in 1938. Shares were to cost $100,000 each and additional shares could be purchased if the country de-

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145 Eduardo Villaseñor, "The Inter-American Bank; Prospects and Powers," *Foreign Affairs*, October, 1941, 167.
146 *Ibid.*, 168.

sired. None but the government of an American republic could buy stock in the bank. Each country will receive 20 votes for the purchase of the minimum shares of stock allotted to that country. For every additional share purchased, one vote will be given. Important decisions required a four-fifths vote, so that 20 percent of the stock would give the power of veto.

The minimum stock for each country was: United States, Brazil and Argentina, $5,000,000; Mexico and Venezuela, $3,000,000; Chile, Colombia and Cuba, $5,000,000; Peru, $2,500,000; Uruguay, $2,000,000; Bolivia, $1,500,000; the Dominican Republic, Panama and Guatemala, $1,000,000; Costa Rica, Ecuador, El Salvador, Haiti, Honduras, Nicaragua and Paraguay, $500,000.[147] The total capital when all countries joined would be $45,500,000. The charter calls for a $100,000,000 cash outlay.

The bank met with some objections in the United States by private bankers. However, it was announced on February 8, 1941, that a "general agreement" had been reached between the state department and the banking interests. Bankers wanted loans restricted to governments and not to individuals, but the state department declined to say if that issue had been settled.[148]

At the conclusion of this study several countries had the bank charter up for ratification in their legislative bodies, but no country had yet ratified the charter.

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147 Business Week, op. cit., May 18, 1940.
148 New York Times, February 9, 1941.

CONCLUSION

The United States was forced to alter its economic policy toward Latin America for social and political as well as economic reasons. However, several changes in national as well as international affairs brought the change about.

With the collapse of international trade, following the high tariffs and the depression, the Latin American countries were forced to turn to a great power for financial aid and economic stability. This situation provided an opportunity for closer cooperation in the Western Hemisphere, especially since the incoming Secretary of State, Mr. Cordell Hull, was a firm believer in reciprocity. Under Secretary of State Sumner Welles also had faith in the possibilities of inter-American cooperation. These two men with the approval of President Franklin D. Roosevelt laid the foundations of the "Good Neighbor" policy much to the consternation of financiers who had large holdings in Latin America. This move was almost a right about face from the policy backed by the Republicans during the past half century.

The Latin American nations began to "feel their oats" after the World War. The Monroe Doctrine that had been unofficially recognized in Latin America, especially in the Carribean region, began to be questioned even by the smaller states. Because of the frequent military and diplomatic intervention of the United States in the Carribean area, the South American nations were living under threat of the same treatment. The intense nationalism developed after the war coupled with the joining of the League of Nations, caused each American republic to demand that it be sovereign in all its affairs. The era of policing by the marines and the benevolent despotism of the United States as the "Big Brother" was over. In short the United States was

forced to give better treatment to the Latin American republics or to face the possibility of the small countries aligning with European powers either in an Entente or an Alliance to protect themselves from the "Colossus of the North."

Another reason for change of policy on the part of the United States was the rise of the dictators in Europe. The dictators planned to dominate Latin America economically and thereby control each country politically. By propaganda and shrewd business dealings plus inside contacts the Germans were able to make huge inroads in the Latin American markets. This was in contrast to the policy of the United States in the past few decades when the business man made his dealings behind the guns of the United States marine corps. This was one of the reasons it was necessary to concentrate more on the economic side as a means of political friendship and security.

The various forces discussed in this study were the frame work set up by the United States agencies to promote Inter-American commerce. Reciprocal trade agreements were a method of lowering tariff barriers as an inducement for increasing the flow of trade. The Export-Import Bank was in a sense a subsidy for the Western Hemisphere business men in the sense that it enabled trade to be carried on by loaning sums of money for that purpose. The Inter-American Financial and Economic Advisory Commission was suggested by the United States government and it also increased trade possibilities by forming an Inter-American Development Commission to industrialize and seek new markets for Latin Nations in an effort to raise the standard of living and thereby increase the buying power of Latin America. This Commission also solved the problem of coffee surpluses and in the future it promises to be a major factor in solving other surplus difficulties. Also the United States

was largely instrumental in setting up the Arbitration Commission in an effort to smooth over arguments and misunderstandings caused by Inter-American trade. Confidence was given to Latin American nations as to future dealings with the United States by the manner in which the Mexican oil dispute was settled.

The laggard in the economic "Good Neighbor" policy strangely enough is the person that will benefit most, namely the American business man. Too often that individual has only sought the Latin American market when no other existed and then dropped it when other orders came in. The trends and wants in Latin America were designed for North Americans. The small details so zealously provided by German manufactures such as color, using the metric system and providing for good representatives as well as repair parts, have been almost entirely overlooked. If more American firms had cooperated with the government in launching the "Good Neighbor" policy, it would be more firmly established in Latin America.

The future of the new economic system is clouded by war. During the war the United States had had an open field in Latin America. The policy of the United States toward Latin America during this war period will be a deciding factor in post war relations. It is comforting to know that there are economic forces working in the United States and Latin America trying to promote better trade and friendlier feelings in the Western Hemisphere as insurance for the future.

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